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FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 5455
INFO RHEFDIA/DIA WASHINGTON DC
RHEFSNG/HMSNG WASHINGTON DC
RUZDHTR/HOTR WASHINGTON DC //USDAO ISLAMABAD PK//
RUWSMXI/AMC INTEL CEN SCOTT AFB IL//INO/J2-J//
RUEPVAA/CDR JSOC FT BRAGG NC//J2/HSE//
RHMFISI/CDR USCENTCOM MACDILL AFB FL//CCJ2-JCH/HSE//
RHLFABN/CDR USESUCOM ABNCP VAIHINGEN GE//ECJ2/ECJ3/ECJ5-A//
RHMFISI/CDR USSOCOM MACDILL AFB FL//SOJ2/HSE//
RHMFIUU/CDR USTRANSCOM TCJ2 SCOTT AFB IL
RHMFISI/CDRUSAREUR HEIDELBERG GE//AEAGB-IAD//
RUEAIIA/CIA WASHINGTON DC//DDI/OEA//
RUEPVAA/COMJSOC FT BRAGG NC
RHMFIUU/COMSOCENT MACDILL AFB FL//SOCJ2/HSE//
RHEFDIA/DIA WASHINGTON DC//DHO-3//
RHEFDIA/DIA WASHINGTON DC//MIO-4//
RUETIAA/DIRNSA FT GEORGE G MEADE MD//M112/S2132HT//
RHCKJAC/JAC MOLESWORTH JCDX RAF MOLESWORTH UK
RUEKJCS/JOINT STAFF WASHINGTON DC//J2/J5-EUR//
RUZFNIA/NASIC WRIGHT PATTERSON AFB OH
RUZFNIA/NASIC WRIGHT PATTERSON AFB OH//DEKA/FCTP//
RUZFNIA/NASIC WRIGHT PATTERSON AFB OH//DXOA/TAAO//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG-CE-CM/IANG-GS-AA//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG/CE/CECM//
RUCXONI/ONI WASHINGTON DC//32/211//
RUEALGX/SAF WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC//USDP-ISA-ADMIN//
RULWAAM/STRATCOM IDHS-90 OFFUTT AFB NE//J22123//
RUEPGAA/US SURVEY DIV SHAPE BE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RUEHIL/USDAO ISLAMABAD PK
RUCQSAB/USSOCOM INTEL MACDILL AFB FL
RUEHLO/AMEMBASSY LONDON 1557
RUEHNE/AMEMBASSY NEW DELHI 5621
RUEHBUL/AMEMBASSY KABUL 1021
RUEHLH/AMCONSUL LAHORE 7998
RUEHKP/AMCONSUL KARACHI 2398
RUEHPW/AMCONSUL PESHAWAR 7040
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDQC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC

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SENSITIVE
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SUBJ: BI-WEEKLY REPORT ON ECONOMIC ISSUES, 7 OCTOBER 2009

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TOP STORIES
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¶1. (SBU) The All Pakistan Textile Mills Association (APTMA) and the business community expressed grave concern over the 6 percent increase in electricity prices. In an October gathering organized by APTMA and businessmen, speakers pointed out that industry is already smarting from multiple problems, predominantly load shedding, gas shortages, and higher interest rates. Mr. Zahid Maqbool, President of Islamabad Chamber of Commerce and Industry, urged the GOP to reverse the decision in view of a larger national interest to facilitate business profitability and maintain competitiveness in export markets worldwide. (Comment: The GOP charges higher rates to commercial and industrial enterprises in order to help subsidize lower costs for household consumers, so the price hike hits industry harder than individuals. Though

industrialists continue publicly to criticize the tariff hike, privately, many business leaders acknowledge the need to raise tariffs to ensure the viability of the power sector.)

¶12. (SBU) Power outages increase throughout country. The News reported on September 28, 2009 that the capacity shortfall for Pakistan power now exceeds 3000 megawatt (MW). Major cities are experiencing four to six hours of load shedding per day, and significant commercial and residential areas are being impacted. The situation is worse in the rural areas, where outages range between 10 to 12 hours per day. It is expected that the crisis will worsen due to decreased hydroelectric production, caused by this year's low water levels. (Comment: Milder temperatures should lessen power demand in the coming months, but the dry winter months also mean lower water levels and thus less power from Pakistan's hydroelectric system. Though new power plants totaling 2250 MW (see next item) were scheduled to come on-line by December 31, many are behind schedule. The load shedding has taken a toll on Pakistan's economy and is credited by the Ministry of Water and Power for causing an estimated \$3 billion of lost GDP.)

¶13. (SBU) Rental Power Projects (RPPs) remain delayed. The Private Power Infrastructure Board (PPIB) confirmed that all fourteen of the RPPs approved by the GOP are unlikely to start operations by year end. (Comment: The PPIB statement comes as no surprise: only one of the RPPs has even begun construction. Sources at PPIB claim they have released mobilization advances to five RPPs and the sixth will

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be paid in a few days, but the ongoing controversy over RPPs has cast a pall over all rental power activity and the fate of the remaining nine is uncertain. If completed, all 14 RPPs could provide up to 2250 MW of additional generation.)

¶14. (SBU) GOP increases power tariff by 6 percent on October 1. The GOP decision is in line with conditions agreed with the International Monetary Fund (IMF) to phase out power sector subsidies by July 2010. (Comment: The October 1 hike is an important first step, and public opposition to the move was reassuringly muted. Although the move will generate significant new revenue, the 12 percent increase agreed with multilateral donors for January 1 could prove more problematic.)

¶15. (SBU) GOP lowers prices for Petroleum Oil and Lubricant (POL). Media reported that the GOP reduced its per liter prices for gasoline by approximately half a cent per liter, for kerosene by 0.032 cents, and for light diesel by 0.023 cents in October. (Comment: The GOP reductions reflect falling prices on the international market.)

¶16. (SBU) Pakistan's public debt rises by \$14 billion. The News reported October 8 that the State Bank of Pakistan (SBP) estimates that during the last Pakistani fiscal year, the government added approximately \$14 billion to the stock of the country's public debt. Domestic debt rose by a worrisome \$7.3 billion over the FY ending July 2009, to \$47.8 billion, and external debt and liabilities increased from \$46.2 billion over the same period to \$52.8 billion, or 62.8 percent of GDP. (Comment: According to the Fiscal Responsibility and Debt Limitation Law, public debt should not be more than 60 percent of GDP and should decline by 2 to 3 percent per year.)

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BANKING AND FINANCE
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¶17. (SBU) On September 30, the SBP announced its policy rate would remain unchanged at 13 percent. According to a press release from the SBP, while inflation on a yearly basis and the balance of payment position have improved, fiscal and real sector performance is still tenuous and the risk of inflation remains. Lending to the private sector remains subdued, but the emerging global economic recovery augurs well for Pakistan's economy. However, limited progress on electricity sector reform and the GOP's fiscal position dilutes optimism for affordable credit.

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18. (SBU) Federal Board of Revenue (FBR) plans to introduce reward system for tax collectors. The Chairman of FBR, Mr. Sohail Ahmed, told The News that the Board will offer a certain percentage of revenue collected as a cash reward to "successful" tax collectors. The Board is targeting annual revenue of \$16.38 billion for Pakistani FY2010 (which runs from July 1, 2009-June 30, 2010). The Chairman stated, however, that revenue collection will be well shy of the first quarter target, although he predicted it will make up ground in subsequent quarters with the collection of advance withholdings for corporate and income taxes. (Comment: We predict the rewards-based strategy will only lead to a marginal increase in revenue collections at best, given the sluggish economy and Pakistan's narrow tax base.)

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STOCK MARKET
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19. (SBU) The Karachi Stock Exchange (KSE)-100 Index ended the week of October 2 at 9,455, roughly 2 percent below the previous week's close. Overall market capitalization declined slightly to \$33 billion, and net foreign portfolio investment inflow totaled \$14 million. (Comment: Contacts from the exchange described the decline as a technical correction. The U.S. commitment to support Pakistan, higher remittances, and a current account surplus are expected to remain the driving forces for market gains in the upcoming sessions.)

10. (SBU) The Lahore Stock Exchange (LSE) remained bullish during the week with improvement in volume trading. The LSE 25-share index added 76.3 points to close at 2,988 points against its opening of 2,912 points. The volume is on track to well exceed turnover of 14.7 million shares on October 2.

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TRADE
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11. (SBU) On September 27, the News and other papers reported that Pakistan seafood exports increased in August compared to the same period last year. The exports increased to 5,327 tons, a 5.9 percent increase, and export value reached \$9.7 million. Measures that have been taken to improve the conditions of boats and harbor

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facilities are credited for the increase. (Comment: Marine Fisheries Department (MFD) contacts confirmed the report and said the MFD, along with the provincial fisheries authority, took several steps to improve harbor facilities and modify boats, which helped to increase the exports. He also said that he expects the EU ban to be lifted soon, and that an EU inspection delegation is expected to visit in late October. (The EU had de-listed all Pakistani seafood exporters in April 2007). Absent the EU market, seafood producers increased exports to China, the UAE, Thailand, South Korea, Saudi Arabia and Indonesia. Despite these other significant increases, officials emphasized the importance of the EU market, which offers stable prices, a large network of countries, and consistent standards.)

PATTERSON